stelco

Annual Report 1981

Contents

stelco

Stelco Inc. was formed in 1910 as The Steel Company of Canada, Limited when several steel companies in Ontario and Quebec merged their operations so that full advantage could be taken of the strides in 20th century steelmaking technology. In 1910, the Corporation accounted for about 10% of the country's steel ingot production. Today, Stelco is Canada's leading steelmaker, producing approximately 35% of the nation's steel.

Cover

The cover depicts the blast furnace at Stelco's Lake Erie Works. The structure in the foreground is the computer controlled conveyor which supplies limestone, coke and iron ore pellets in precisely measured amounts to the high-pressure bell-less furnace top.

The three tank shaped objects on the back cover are blast furnace stoves which pre-heat the incoming air to approximately 2,200°F for the hot blast. This very high temperature air is needed to support the reaction that reduces the iron oxide pellets to molten iron.

Pour obtenir un exemplaire de la version française de ce rapport veuillez écrire au secrétaire,
Stelco Inc.
C.P. 205, Toronto-Dominion Centre,
Toronto, Ontario, M5K 1J4.

Stelco Inc.

Toronto, Canada

stelco

Annual Report 1981

(Year ended December 31, 1981)

Highlights

Dollars in millions except as indicated*

		1981	1980	% Change Increase (Decrease)
Financial				
Sales	$	**2,173.8**	2,228.6	(2)
Net Income	$	**82.8**	132.2	(37)
Per cent of sales	%	**3.8**	5.9	
† Per common share —	*$	**1.45**	4.05	
— fully diluted	*$	**N/A**	3.88	
Dividends declared — preferred	$	**47.7**	34.0	40
— common	$	**49.5**	49.4	—
Per common share	*$	**2.00**	2.00	
Common shareholders' equity	$	**1,042.5**	1,054.7	(1)
Per common share	*$	**42.07**	42.66	
Capital expenditures	$	**210.2**	191.7	10
Depreciation	$	**93.6**	70.3	33
Operations				
Materials and services bought and used	$	**1,312.2**	1,270.5	3
Total employment costs	$	**674.6**	687.9	(2)
Average number of employees		**26,263**	25,094	5
Raw steel produced — thousands of net tons		**4,454**	6,278	(29)
Steel shipments — thousands of net tons		**3,804**	4,529	(16)
Distribution of Total Revenue				
Purchases of goods, supplies and services	%	**56**	54	
Wages, salaries and employee benefits	%	**30**	30	
Depreciation	%	**4**	3	
Interest on long-term debt	%	**3**	3	
Federal, provincial and municipal taxes	%	**4**	4	
Dividends	%	**4**	4	
Earnings reinvested in (withdrawn from) the business	%	**(1)**	2	
	%	**100**	100	

†After preferred dividends. (See Note 1 on page 17 for explanation of computation of net income per common share.)

A report from the Chairman of the Board

The strength which returned to the Canadian steel industry in the fourth quarter of 1980 was maintained during the first seven months of 1981. During this period record sales were achieved, but the high level of profits was illusory, attributable in large measure to distortions caused by inflation. Moreover, these distorted profits continue to provide a lower level of return than our industry requires. There was mounting evidence in the second quarter that the Canadian economy was weakening under the strains of continuing high inflation and interest rates and by the third quarter, it had become evident that severe business deterioration had spread to many steel consuming sectors in addition to the farm implement, automotive and housing industries. Steel product shipments declined for the balance of the year, a condition compounded by a four month strike at a number of the Corporation's facilities. Canadian raw steel production of 16.1 million tons in 1981 was 7% below that in 1980; direct mill exports declined from 3.0 million tons to 2.2 million tons and more than offset the increase in domestic shipments from 10.5 million tons in 1980 to 10.9 million tons in 1981. In the face of uncertain Canadian steel product availability in the third and fourth quarters, import commitments at low prices were made by many of the industry's customers. As a result imports of rolled steel products, exclusive of those brought in by the mills to supplement production, grew to a record 1.9 million tons from 1.1 million tons a year earlier and represented 14.7% of 1981 apparent Canadian consumption.

For Stelco, initial orders augured well as many sectors continued to show surprising resiliency. The demand for tubular products was heavy, particularly large diameter pipe; the construction industry remained firm and, despite weak conditions in the automotive industry, shipments to parts suppliers held up. The bright promise of Lake Erie Works was being realized as production climbed and quality steel slabs were being provided to Hilton Works and to U.S. mills.

Our unprecedented momentum was halted abruptly on August 1, by strikes called by the United Steel Workers of America at all facilities, except Chemical Lime Works, Stelco Fabricators Ltd. and those at Welland and Camrose, which are organized by the United Electrical Workers. Negotiations led to the signing of contracts in August at Lake Erie Works and seven finishing plants, but the continuing demands by Hilton Works and Montreal and Edmonton steel plants, together with Frost and Parkdale Works, for very significant improvements on these settlements in the face of deteriorating economic conditions prevented the resolution of disputes until December 3. The 125 day shutdowns were the longest in Stelco's history and had marked effects on corporate results in 1981. Net sales of $2.2 billion, while only $55 million below 1980's record, were achieved largely because of pre-strike strength and the impact of inflation on selling prices. Net income declined to $82.8 million from $132.2 million in 1980 and steel product shipments were down 16% to 3.8 million tons.

The stance taken by Corporate Management throughout the course of the labour negotiations reflected its determination to avoid wage and benefit settlements that clearly would be out of line with agreements already reached in the industry and in fact, in the country, would make the Corporation uncompetitive from a cost standpoint, and would set an irresponsible pattern for Canadian manufacturing. It was apparent that the economy had softened, that a period of cyclical downturn was in the offing and that domestic steel markets were being threatened seriously from abroad. Acceptance of exorbitant and inflationary wage demands would have destroyed future competitiveness and weakened our ability to proceed with planned and needed facility improvements and expansion. Unfortunately, the realities of these conditions were not widely perceived, and the focus remained on wage and benefit improvements which represented more than a 100% increase in our hourly labour costs.

The cost of the strikes has been very high for the Corporation and its workers. Business and market share have been lost and our competitive cost position has been eroded seriously for many products as the result of a labour settlement package in excess of 50% over three years. In addition cash flow has declined and workers' incomes have suffered materially, straining internal and external relationships. No party emerges a winner from such events. The task now before us is to reconcile differences, to reforge unity and to restore an internal confidence that will allow the Corporation to seize opportunities that do lie ahead.

Such opportunities will not be grasped easily in the light of current world steel and economic conditions. Western world steel consumption in 1981 remained unchanged from 1980. In October, the International Iron and Steel Institute, composed of members from 44 countries, at its annual meeting in Toronto forecast that 1982 consumption would increase 4.2%. This will be difficult to achieve in the light of more recent global developments. In 1981, European steel producers felt the severe effects of slumping economies and steel markets at home leading to steel production cutbacks, unemployment and sales abroad at low prices. This engendered a turbulent response on the part of the steel industry in the United States, where capacity utilization had declined to below 60% by November. The American industry's concern about steel product import levels does not exempt Canada from attention, albeit Canadian exports to the U.S. account for only 1.9% of U.S. consumption. While Japanese steel exports declined somewhat in 1981, the competitive threat from that country and from some European countries whose currency values have declined, as well as from low cost Third World producers, will make for unstable international steel market conditions in 1982, aggravated by increasing balance of trade conflicts and protectionist sentiments. In such a climate, the attention of the Canadian steel industry will be focused primarily on the home market as most overseas market participation will not be profitable.

The Canadian steel industry traditionally has relied on domestic markets as its source of strength. For some time, worrisome economic, political and social influences in Canada have been obscuring a wealth of domestic opportunities. For too long, Canadians have been caught up with internal dissensions, disagreements and inward-looking preoccupations. The constitutional and energy disputes, regional discords, the undue emphasis on Canadian nationalism, and very unstable economic conditions have strained our confidence and have sapped our willingness and ability to exploit our advantages as a nation. This has been reflected in others' perception of us — to our added detriment. Increasing global economic interdependence should be viewed as an opportunity, not as a problem.

Canada, not unlike Stelco, must strive for unity and restoration of confidence. The development of a national will and purpose can come only from publicly understood and accepted objectives and policies, which reflect the basic principles of improvement of economic efficiency, attainment of financial stability and encouragement of new, productive investment. Governments must lead in these efforts, but it should be understood that free enterprise flourishes best with minimized government interference. The private sector will accomplish these objectives only if it has reasonable access to capital and it is supported by consistency in tax and incentive policies to allow forward planning.

In addition, we are faced with the vital need for concentration on energy conservation and eventual self-sufficiency. Construction of major energy projects towards these ends is most urgent now as it holds the key to economic resurgence for all parts of Canada.

The economic outlook for Canada in 1982 is not favourable. There are serious dislocations and difficulties in many sectors and these will not be corrected quickly. The Canadian recovery is predicated largely on economic improvement in the United States and in overseas countries which are besieged by unemployment, trade and inflation problems. Continued GNP decline in Canada for at least the first half of the year is foreseen by most observers. Despite such a pessimistic short-term view, one cannot but sense that the country is on the threshold of expansion and has the potential for a period of surging growth in the 1980's.

The immediate concern of Canadian steel producers is the current condition of the economy and the timing of the recovery. The forecast for 1982 steel industry shipments is for very little change from 1981. Stelco's immediate priorities are to regain market share lost during the strike, improve cost competitiveness, and restore profit and working capital positions to allow for planned expansion.

In many respects, 1981 for Stelco will not be remembered with enthusiasm. However, your Directors appreciate and acknowledge the efforts of employees who remained at work during the August to December period and of the Corporation's Industrial Relations personnel who effected the settlements of the labour disputes in the face of most trying circumstances. As well, the support and understanding of our customers, suppliers and shareholders was most gratifying.

Directors

There were no changes of Directors or Officers during the year, but it is recorded with pride that in 1981 two of your Directors were accorded public recognition as distinguished Canadians.

□ Mr. A. Jean de Grandpré was appointed an Officer of the Order of Canada. This distinctly Canadian award is designed to honour Canadian citizens for outstanding achievement and service to the country, to humanity at large and for distinguished service in particular fields of endeavour. Mr. de Grandpré's investiture will take place in the spring.

□ Senator The Honourable Ernest C. Manning was honoured as the first member of the Province of Alberta's newly instituted Order of Excellence, given as "recognition to those persons who have rendered service of the greatest distinction and of singular excellence for, or on behalf of, the residents of Alberta".

Gordon

Chairman of the Board and
Chief Executive Officer

Toronto, Canada
February 15, 1982

A report from the President

Sales and production

During the first seven months of the year Stelco experienced strong demand for its steel products and operated at high levels.

The expiration of the collective agreements on July 31, 1981 and the rejection of the Corporation's offer saw the majority of the Corporation's facilities closed down for varying periods of time. (See Employee Relations section of this Report, page 12 for details of the strike.)

By the time the last of these work stoppages were settled on December 3, the Canadian economy was in the grip of a severe downturn. This, coupled with problems encountered in reactivating two blast furnaces, significantly curtailed production in December.

Sales revenue was $2,173.8 million, down 2% from $2,228.6 million in 1980. This reduction is directly attributable to the strike but was partially offset by higher selling prices and the sale of slabs and converted material produced at Lake Erie Works. Steel shipments amounted to 3,804 thousand tons, a significant drop from the 4,529 thousand tons shipped in 1980.

Raw steel production at 4,454 thousand tons included 756 thousand tons produced at Lake Erie Works. The decline from the 6,278 thousand tons produced in 1980 is due to the impact of the strike offset by 11 months of steel production from Lake Erie Works.

Net income

Consolidated net income of $82.8 million is down drastically from $132.2 million earned in 1980.

Earnings available to common shareholders, after deducting preferred dividends, were $1.45 per share compared with $4.05 per share in 1980. By any standard these earnings were very disappointing, particularly since net income had reached $114.7 million at the end of the first six months of the year.

The recovery of profits will be difficult in the short term because of the depressed conditions of the domestic and international economies going into 1982.

Dividends

Dividends declared on all classes of preferred shares amounted to $47.7 million compared to $34.0 million in 1980. The increase results from the higher dividend rate on the Preferred Shares Series A which is tied to prime interest rates, and the provision of a full year's dividends in 1981 for the Convertible Preferred Series C Shares which were issued April 1, 1980, and the Preferred Shares Series D issued October 1, 1980. (See Note 10 to the Financial Statements commencing on page 19.)

The dividends declared on the Common Shares (Series A and B Convertible) amounted to $49.5 million or $2.00 per share in both 1981 and 1980. The dividends declared on Series B Convertible Common Shares may be payable as stock dividends in Series B Convertible Common Shares in accordance with the conditions attached to such shares and are equivalent to the amount declared per share payable in cash on the Series A Convertible Common Shares. (See Note 10 to the Financial Statements commencing on page 19.)

Financial position

Capital structure

The changes in the capital structure of the Corporation were minimal. They consisted of: the purchase and cancellation of Preferred Shares in accordance with the terms of the issues, the declaration of stock dividends applicable to the Series B Convertible Common Shares, and the conversion of 1,850 Convertible Preferred Shares Series C with a stated capital of $46,250, into 1,369 Series A Convertible Common Shares. (See Note 10 to the Financial Statements commencing on page 19.)

Capital investment

In 1981, excluding long-term intercorporate investments, the Corporation invested $212.3 million in manufacturing and mining facilities compared with capital expenditures of $192.5 million in 1980. Included in the total for 1981 is $147.5 million for facilities at Lake Erie Works, mainly for the Coke Ovens and Hot Strip Mill. The balance of $64.8 million was for environment control, growth, cost reduction and market retention projects at the Corporation's other operations. These capital expenditures were up from $53.5 million in the previous year, largely as a result of spending at Hilton Works.

Intercorporate investments

Long-term intercorporate investments decreased during 1981 by $3.7 million to a total of $74.7 million at year end. The reduction was partially the result of the repayment of demand notes by Baycoat Limited.

Working capital

Working capital at December 31, 1981 amounted to $791.4 million compared to $930.7 million last year end, a decrease of $139.3 million. During the year, cash and short-term securities decreased by $21.6 million. Receivables declined $166.7 million because collections exceeded sales during the strike period.

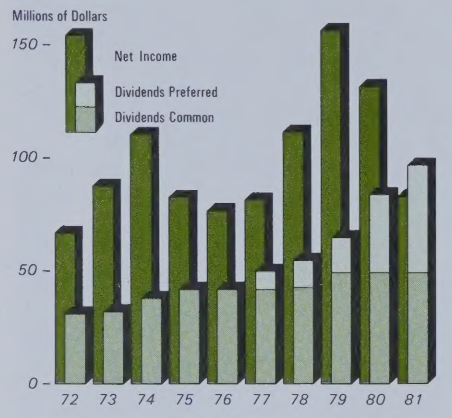
Inventories amounted to $794.4 million at the year end, an increase of $92.5 million compared to last year. For the most part, the increase was due to the buildup of coal and ore which resulted from their reduced consumption during the 125 day strike at Hilton Works. Partially offsetting this raw material increase was a lower level of unfinished and finished material at the Tubular Works and other Finishing Works which operated during the strike period. The higher dollar value of inventories represents the effect of inflation on inventory prices as well as quantity increases.

Accounts payable increased by $43.8 million to $323.2 million at year end, largely because of the higher levels of raw material inventory and the general effect of inflation on prices.

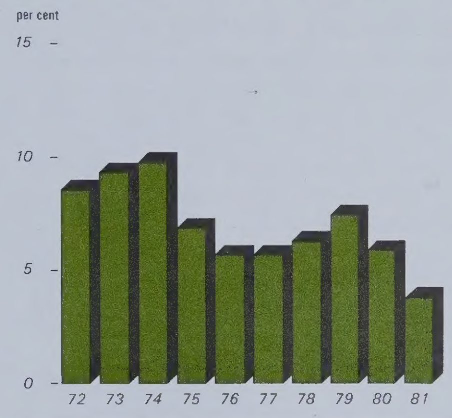
The liability for income and other taxes was down moderately to $34.5 million at year end reflecting the lower level of profit.

The current ratio, which is the ratio of current assets to current liabilities, at December 31, 1981 was 3.0 to 1, a decline from the 3.6 to 1 at the end of 1980. This decline was the result of the lower level of receivables together with the increase in payables referred to above.

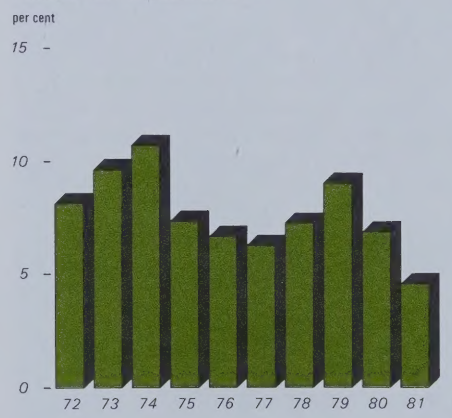
Net Income



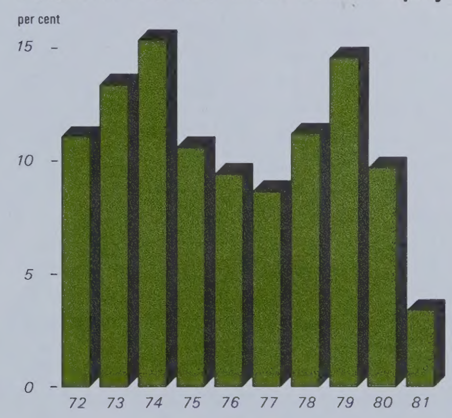
Return on Sales



Return on Investment



Return on Common Shareholders' Equity



Inflation

The purchasing power of the Canadian dollar continued to erode during 1981. As a result, an assessment of the Corporation's financial position using historical values tends to be distorted since dollars of different relative values are compared in the conventional financial statements.

In particular, the Corporation's investment in fixed assets and inventories has been affected significantly. It is estimated that Stelco's investment in inventories increased by $77 million due to inflation in 1981. Depreciation charges based on the reproduction cost of the Corporation's fixed assets, calculated using Statistics Canada's Implicit Price Indices for Non-Residential Construction and Machinery and Equipment, are estimated to exceed the reported depreciation based on historical cost by $105 million. When attempting to assess the impact of inflation on the Corporation's results, the reader is reminded that while both of the above factors affect the reported profit adversely, there are other considerations such as appreciation in the value of existing assets and the effect of repaying long-term debt with depreciated dollars which could be taken into account.

Shareholders

There were 32,277 holders of common shares at year end compared with 36,040 the previous year end. Shareholders with Canadian addresses held approximately 93% of the total shares outstanding compared with 92% last year. The decline in the number of holders of common shares is a reflection of the widespread trend toward financial institutions acting as nominees for a number of shareholders and the concentration of shareholdings in the hands of pension funds, insurance companies and other institutional investors.

Marketing and corporate planning

The aggressive marketing plans and efforts put in place by the Corporation during the 1980 economic downturn brought rewards in the first seven months of 1981 when sales records were achieved for many products. While the automotive industry continued in a weak state and the attraction of offshore exports diminished because of price erosion, domestic demand for steel products surged across a broad range of industries. As well, selective exports to the United States continued, including the sale of slabs and pig iron produced at Lake Erie Works.

Early in the year, distribution controls were established for most products. To support flat rolled and tubular finishing capacities, arrangements were made with some U.S. mills for the conversion of Lake Erie slabs.

It is traditional in years of labour negotiations for the steel industry's domestic customers to build inventories as a hedge against possible work stoppages. However, in 1981, discouraged by high interest rates, hedge buying was less than expected. Nevertheless, some steel users did take steps to protect their positions by making commitments with overseas mills, so that imports reached high levels in the second half of the year.

In the third quarter, almost coincident with Stelco's strikes, a sudden decline of steel product demand occurred. Markets softened dramatically and this condition continued for the balance of the year in both Canada and the United States. Stelco's sales efforts and mill loadings were for the most part paralyzed from August to December, although it was possible to keep some finishing plants in operation through the purchase of steel. The pipe mills at Welland and Camrose kept up production by means of Lake Erie slab conversion, purchased steel and the skelp inventories built before the strike at Hilton Works. In fact, sales of tubular products throughout the year provided one of the few bright spots of 1981 reaching record levels as a result of oil and gas pipeline activity. Significant tonnages of large diameter pipe were provided for looping TransCanada PipeLines' western system, for the southern section of the Foothills Pipe Lines and for the start of the Trans Quebec and Maritimes Pipeline to supply natural gas to Eastern Canada.

The year 1982 will pose severe marketing challenges for Stelco. First half demand from most sectors will be weak and it is unlikely that this will improve until there is a general economic recovery in Canada and the U.S.A. The strikes not only resulted in lost business in 1981 but also will reduce our share of the market, particularly during the early months of 1982. Exports will be hampered by severe competition in all of our traditional markets. Progress in energy projects such as the northern section of the Alaska Highway Gas Pipelines, would stimulate a number of steel-consuming sectors.

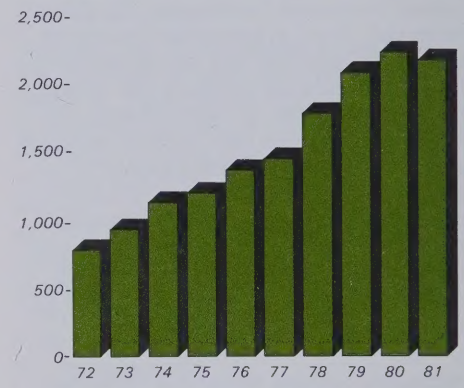
Stelco marketing is well equipped to meet these challenges and is confident that its principal objective of rebuilding market participation can be accomplished in 1982.

Corporate planning

Major planning thrusts for 1981 were designed to expand the steel finishing capabilities at Lake Erie Works and exploit more fully its potential as an integrated steel producer. At Hilton Works plans to improve cost effectiveness and product quality are moving ahead. The expansion program announced in June 1979 is well underway with the 80" Hot Strip Mill scheduled for start up in the second quarter of 1983 and the No. 1 Bar Mill modification completed by late 1983. Tin-free steel is now being produced on the modified No. 3 electrolytic tinning line and the expansion of the finishing works facilities is substantially complete. However, the Corporation has not proceeded with the fourth continuous steel galvanizing line and the supporting expansion and modifications to the 80" Cold Mill at Hilton Works. Increased galvanizing capacity is still an important factor in future plans but because of changing priorities, the timing and location of this investment is being reassessed.

Sales

Millions of Dollars



Raw materials

Coal

Normal coal supplies were interrupted by a 10 week strike by the United Mine Workers of America following expiration of their industry-wide contract on March 27, 1981. Increased inventories acquired prior to the close of navigation in 1980 were adequate to cover requirements during this strike period. The settlement with the UMWA, resulting in a 40 month contract which expires September 30, 1984, will add materially to the cost of production.

The 125 day strike at Hilton Works reduced coal requirements by more than 1.1 million tons. Inventories of coal increased moderately in spite of the loss of production at ownership mines during the 10 week UMWA strike, the exercise of "force majeure" clauses to limit all purchased coal and the sale of some surplus coal. It is expected that the additional requirements of the new Lake Erie Works coke ovens together with outside coal sales will help reduce these excess coal supplies in 1982.

In general, the level of productivity at most mines for the periods worked continued the gains experienced in prior years. Labour stability was similar to 1980 and unauthorized work stoppages were minimal.

Chisholm Mine (100% owned): Facilities for the South Side Development which started production in 1980, were essentially complete at year end. During 1982

additional production units and related maintenance and support areas will be transferred to this new facility.

Madison Mine (100% owned): Operating levels were increased over 1980 and some excess coal, resulting from the Hilton Works shutdown, was sold during the last quarter. A proposed new mine access has been delayed pending the granting of the necessary permits.

The Beckley, Mathies and Olga Mines in which the Corporation has varying ownership interests (see page 25 for ownership percentages) for the most part operated satisfactorily during the year. A portion of their output was sold to help alleviate the excess supply of coal.

The Elk River Coal Project (25% owned): Construction of this project remains uncertain due to continuing limited demand for metallurgical coal. Spending on development work remained at a minimum level during the year.

Iron ore

New three year labour agreements with the United Steelworkers of America were reached at Wabush Mines in April and at The Griffith Mine in August.

Operating levels of several mines were below capacity as a result of lower iron ore requirements by some owners. As a result of the Hilton Works strike, availability of iron ore greatly exceeded the Corporation's requirements, resulting in year end shutdowns at some operations. Some excess tonnage was sold and where possible contract tonnages have

A newly fabricated oil drilling rig awaits shipment to a drill site. The rig makes extensive use of Hollow Structural Sections supplied by Stelco. The Corporation has championed the growing industrial and commercial construction uses of these strong structural elements. Tubular products provided one of the bright spots in Stelco's 1981 marketing picture and Canadian pipeline activity should grow steadily in 1982, creating continued strong demand for line pipe and the heavy steel products associated with fossil fuel recovery and processing.

been cancelled. The remaining excess inventory will be worked off during 1982 and 1983.

The Griffith Mine (100% owned): Operations continued at capacity levels through December 18, 1981 when operations were shut down for a 4 week period to reduce inventories of pellets. Operations in 1982 will be reduced by approximately one third to reduce further surplus inventory. The direct reduction kiln did not operate in 1981.

Wabush Mines (25.6% owned): Operations continued at capacity levels through December 14, 1981 when operations were shut down for a three week period due to excess inventories of pellets at the owners' steel plants. Stelco plans to reduce its 1982 ore allotment by up to one third to reduce excess inventory.

Erie Mining Company, Hibbing Taconite Company and Tilden Mining Company, all partially owned joint ventures and partnerships (see page 25 for ownership percentages), all operated at less than capacity during the year due to the reduced iron ore requirements of the owners.

Eveleth Expansion Company (23.5% owned): Operations were at capacity throughout the year.

Limestone

Chemical Lime Works (100% owned): Operations were at capacity until August 1, 1981 but for the balance of the year, the level of operations was reduced substantially, being geared to the requirements of Lake Erie Works and some outside sales.

Operations

Hilton Works

Throughout the first half of the year strong market demand enabled primary steelmaking and rolling to function at capacity levels. Hilton Works operations were closed down August 1 by the labour dispute which lasted 125 days. Since the settlement of the strike on December 3, 1981, reduced demand for steel has kept operations well below the levels experienced in the first half of the year.

After seven years of operation, the first campaign on "D" Blast Furnace, employing Russian designed cooling staves, was terminated on August 1, 1981 concurrent with the labour dispute. This furnace, the first in North America to be so equipped, produced a record 7,837,000 tons which substantially exceeded original projections. Relining of this furnace will take place in the first half of 1982.

The Corporation has been licensed to use the Lance Bubbling Equilibrium Process, a recent development which controls the thermo-chemistry within the B.O.F. steelmaking vessel through the bottom injection of inert gases. The equipment associated with the process has been installed on one vessel and the remaining two vessels are expected to be converted in the future. Tests have indicated that, in addition to optimizing metallurgical reactions, this process will allow more precise control of steel analysis while reducing iron loss in the slag and wear on furnace refractories.

Following modifications in 1980, including the installation of a coilbox, the Hot Strip Mill was close to its planned objectives at the time of the work stoppage.

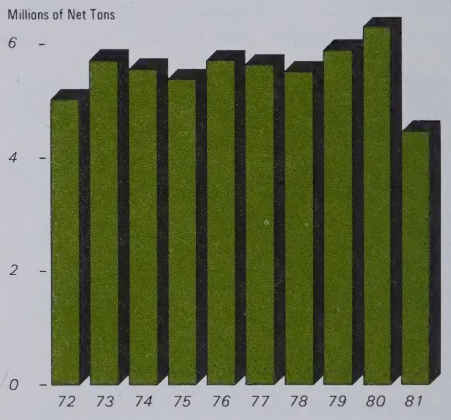
No. 3 Tinning Line has produced tin-free steel satisfactorily during its first extended period of operation following changes made late in 1980 to permit production of this product.

The major modifications to the No. 1 Bar Mill to increase capacity and quality of product are underway. Completion originally scheduled for late 1982 has been delayed by the work stoppage and is now scheduled for late 1983.

Lake Erie Works

Lake Erie Works steel production was maintained largely on a daily two shift operation throughout 1981, with the exception of the month long interruption during August.

Raw Steel Produced



Iron and steel making efficiency improved during the year. The range of steel grades was expanded and the fine tuning of the installed facilities continued. The quality of pig iron and slabs met the anticipated level and has been well accepted in the marketplace.

At Lake Erie Works construction continued on two major expansion projects: the 80" Hot Strip Mill and the cokemaking facilities including Coal and Coke Handling equipment and the By-Products Plant.

The lengthy pre-heating period for the new coke oven battery commenced in mid-September, with the first coke being produced November 24, 1981. This facility started well and it is now satisfying the coke requirements of the L.E.W. blast furnace. This coke oven incorporates the latest environmental technology, including a sophisticated water treatment plant, as well as facilities for the control of gaseous emissions.

The Hot Strip Mill field construction program was reactivated in early 1981. Principal equipment foundations are essentially complete and major mill equipment is being installed. Contracts for piping, electrical wiring, and instrumentation are expected to be completed in the early

fall of 1982. This mill is expected to be ready for initial production in the second quarter of 1983 following an extensive commissioning and start-up program.

The inclusion of the Stelco Coilbox in the design of this mill has reduced the capital cost by permitting the mill to be considerably shorter and therefore requiring a smaller building than a conventional hot strip mill.

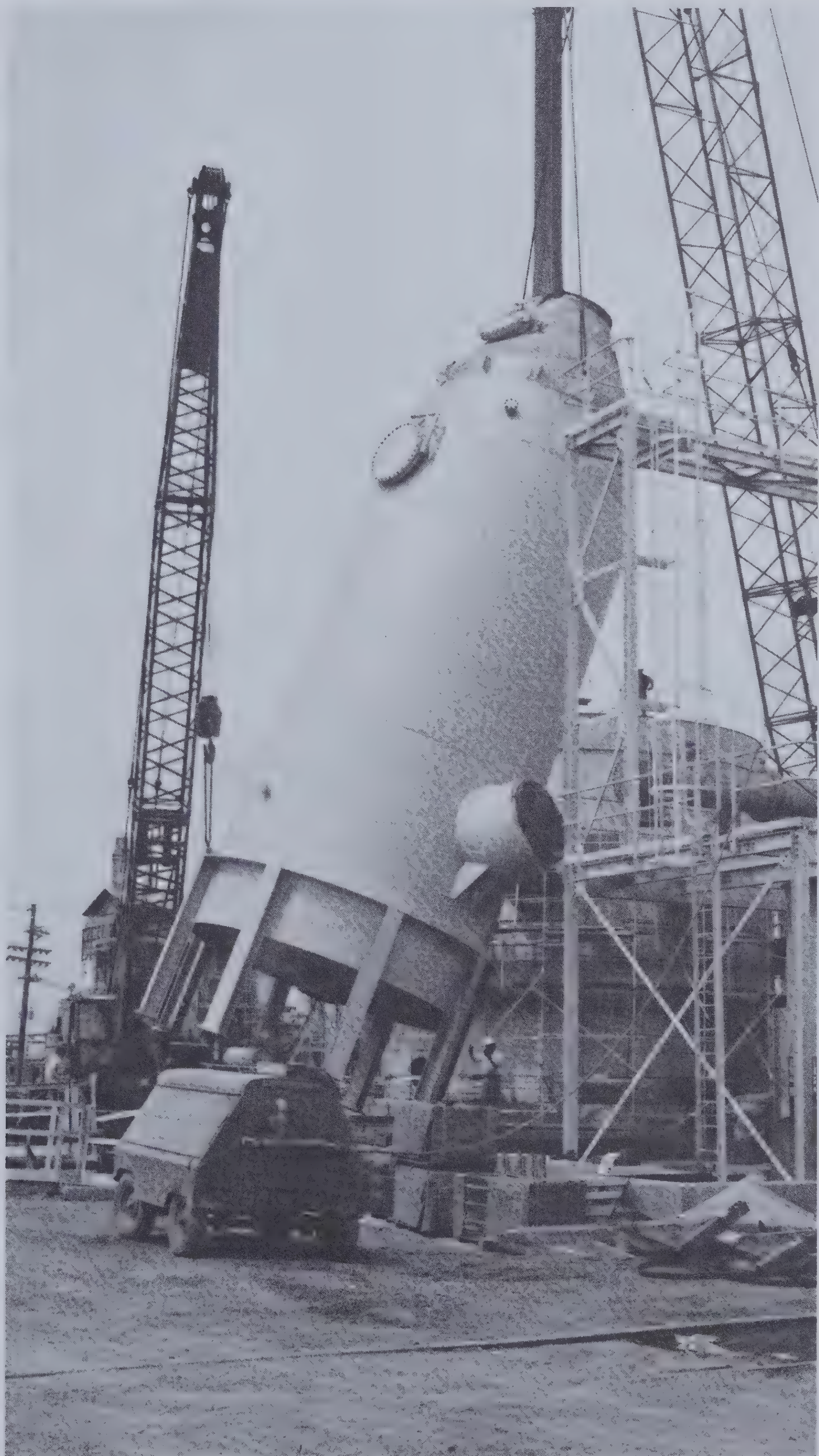
Industrial Park

Several lots in the Lake Erie Industrial Park were sold during 1981. One of the additions is a custom steel pickling plant whose 56,000 square feet building is scheduled for completion by August 1982. The park continues to attract the attention of U.S. and overseas companies seeking to establish plants in Canada.

Eastern Region

Although several production and shipping records were set in the first half of the year the 125 day strike at the Corporation's Quebec plants precluded the establishment of such records on an annual basis.

At McMaster Works the water cooled shell on the electric furnace continues to improve operating efficiency, reduce refractory costs and contribute to better working conditions. A new automatic mold level control at the billet caster is improving yields with resulting lower costs.



A steel vessel at an Alberta sulphuric acid plant is inched into final position. One of the largest of its type in the world, the structure was fabricated out of high performance steel plate by Stelco Fabricators Ltd. in Regina, Saskatchewan. The heavy construction industry — including the energy sector's long awaited mega projects — holds the key to a revitalized Canadian economy. Such projects have much promise for Stelco; they will trigger a ripple effect that will stimulate secondary industry and create increasing demand for Stelco products.

McMaster concast billet application has been greatly expanded by such uses as the production of high quality seamless tubing at Page-Hersey Works.

Central Region

The year 1981 marked the 25th anniversary of the start-up of Parkdale Works. Unfortunately, the labour dispute which closed operations at this plant for over 4 months, together with the recession in residential housing, severely restricted the output of wire and nails in the second half of the year.

The Continuous Rod Processing Plant at Burlington Works, although closed for one month by the labour dispute, is proceeding on schedule with its expansion program. Wire drawing commenced in the second half of the year and the cleaning and annealing expansion is expected to start up in 1982.

Canadian Drawn Works installed a Schumag cold drawing bench which was successfully brought into operation prior to the strike.

Gananoque Works continued to be adversely affected by the decline in the automotive industry. In spite of vigorous efforts to develop new products, the current level of activity remains disappointing.

Swansea, Brantford and the Fastener Shipping Centre were similarly affected by the decline in automotive markets. The Corporation has expanded its fastener facilities in anticipation of an improvement in the outlook for the automotive and agricultural implement industries. A new computer with the latest technology was successfully installed at the Fastener Shipping Centre replacing the existing unit. At Swansea Works a locking nut was developed which appears to have good market potential. Swansea Works is also adopting micro-computer technology to inspect bolt threads and further improve the quality of the product.

The operations at Page-Hersey Works and the large diameter pipe mills reflected new levels of capacity utilization and output. At Welland Tube Works the first major orders were run on the Stelform mill during the year. Quality and yield standards were met although the start-up highlighted some of the difficulties inherent in moving from minimal operations to near capacity levels. The experience gained during these runs verifies the Corporation's ability to produce the quality and large quantities of pipe required for the northern frontier.

At Page-Hersey Works equipment for controlled forming of pipe was installed on the 16″ ERW mill to increase the product range of this equipment and further consolidate the Corporation's position as the prime line pipe supplier in Canada. The capacity of the 2″ - 8″ pipe mill is being expanded through modifications to the finishing area.

Western Region

Camrose Works 42″ mill enjoyed one of its better years in some time producing sizeable orders of pipe for the Eastern leg of the Foothills Pipe Lines (Yukon) Ltd. natural gas line, as well as large tonnages of 42″ pipe for TransCanada PipeLines Limited looping. The 16″ ERW mill had an excellent year and set an annual production record. Plans are being developed to modify this mill to handle the larger coils expected from Lake Erie Works and widen its product range to include oil well casings.

Edmonton Steel Works was involved in a labour dispute which shut down its operations for 91 days. With the end of the strike, work was once more underway on the installation of a computer program which is expected to reduce the use of reagents and provide better control of operations.

Edmonton Finishing Works continued to operate throughout the year, although bar material normally supplied to this operation by Edmonton Steel Works had to be supplemented by outside purchases. The first phase of the sucker rod expansion was completed and a significant increase in output was achieved.

Stelco Fabricators Ltd. experienced an unsatisfactory year. The uncertainty associated with the Federal-Provincial dispute over energy policies, noted in last year's annual report, continued to impact on capital investment in Western Canada during most of the year.

Energy conservation

Throughout 1981 the Corporation continued its high level of activity in energy management and conservation. More than 500 energy-conserving practices have been implemented over the past seven years; the decrease in energy required to produce a ton of raw steel is equivalent to 7% of the base period (1974) energy utilization. The savings in energy costs over this period exceeded $19 million.

The 125 day strike limits comparison of 1981 energy consumption data, with 1980 data, to the period January to July. The Corporate energy consumption (average number of BTU's per net ton of raw steel produced), although marginally higher for the seven month period, was significantly lower in the second quarter than the 1980 average. The greatest specific energy savings were achieved at Lake Erie Works.

Transportation

Stelco's widespread sources of raw material, broad product range and customer locations employ transportation routes that extend from coast to coast. Every form of transportation is used and a large number of Canadian-based carriers benefit from the Corporation's transportation expenditures.

In a number of cases, steel and its raw materials serve as backhauls or matching legs of the journey for other important Canadian commodities. Examples are: lumber heading east on bulkhead flat cars with steel heading west on the same cars and grain in lake vessels heading out of Thunder Bay to the Gulf of St. Lawrence for furtherance to overseas markets with iron ore returning in those same vessels to supply the mills in Hamilton and Nanticoke.

As the economy grows and new areas are industrialized more and more of these mutually beneficial transportation matches are being developed with steel as a major ingredient.

Associated companies

Baycoat Limited

This 50% owned subsidiary continues to enjoy its position as a leader in the North American coil coating industry. During the year a subsidiary, Baycoat Technical Services Limited, was awarded a contract by a company in Italy to design and have manufactured a coil coating line scheduled for completion in 1982. Other firms have expressed interest in purchasing the Company's technology.

Operations and earnings were somewhat lower in 1981, largely as a result of the continued decline in demand from the automotive sector.

Torcad Limited

At Torcad Limited (50% owned by Stelco) operations were adversely affected throughout 1981 by the continued decline in the demand for plated fasteners for the automotive trade. However, the venture for chrome plating rolls used in rolling mills, which commenced full operation during the early part of 1981, has proven to be an efficient cost-competitive facility. Plans to produce chrome plated shafting were delayed by the strike but involvement in this market is anticipated in 1982.

Fers et Métaux Recyclés Ltée

During the year 1981, our 50% owned joint venture, Fers et Métaux Recyclés Ltée in LaPrairie, Quebec experienced low profits primarily because of depressed prices for non-ferrous metals.

Destined for the suspension systems of downsized domestic cars, coil springs made from Stelco hot rolled bars await shipment from a central Ontario manufacturer. A key Stelco market, the auto industry is in the throes of dramatic change. As the drive for lower, more competitive selling prices and better mileage gains momentum, research and development programs have assumed top priority. Stelco is aggressively pursuing new automotive applications for its products, and is working closely with the automakers and their suppliers to develop lightweight steel components.

Shipments of ferrous scrap were adversely affected by the strike at Contrecoeur Works.

Canada Systems Group Limited

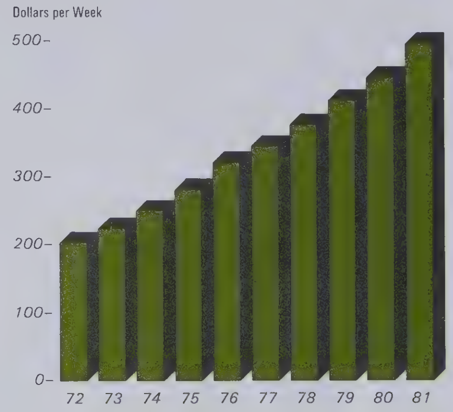
Stelco has a one-third interest in this Company which is the largest data processing service enterprise in Canada. Sales continued to grow throughout the year, but profits were lower. The new data centre opened last year in Calgary has not yet reached its maximum potential, largely as a result of economic uncertainties generated by the Federal-Provincial dispute over a National Energy Program. Canada Systems Group Limited has entered a significant new market through the acquisition of Datapharm, a proprietary system to provide drugstores in Ontario and Western Canada with computer services to facilitate both the labelling and dispensing of prescription drugs.

Employee relations

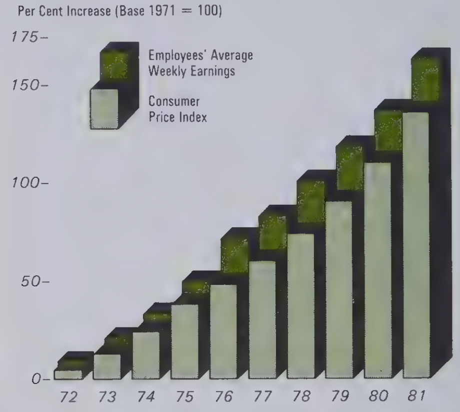
Collective bargaining

1981 was a major negotiating year at Stelco. Following a two-month strike, employees at Stelco Fabricators in Saskatchewan ratified a new collective agreement in June. Collective agreements covering employees at all other manufacturing plants, except Page-Hersey and Welland Tube Works, expired on July 31. The Corporation's offer of settlement was rejected on July 30 at Hilton and Lake Erie Works and at the various fabricating plants in Ontario and Quebec and these facilities became strikebound on August 1. A revised offer was accepted by employees at Lake Erie Works and at six of the eight Ontario fabricating plants and following ratification votes held between August 25 and 28, work was resumed. In Edmonton, both the Steel Works and the Finishing Works continued to operate without a contract until September 4 when a revised offer was rejected at Edmonton Steel Works and accepted by Edmonton Finishing Works. Hilton Works, Parkdale Works, Frost Works, Edmonton Steel Works and all the Quebec plants remained strikebound until December 3 when a new collective agreement was finally ratified. Employees at Page-Hersey and Welland Tube Works, whose agreement expired on November 1 continued working until November 29 when a new contract offer was accepted. All these contracts provide for substantial increases in wage rates and employee benefits. Adjustments to salaries and benefits were also made for employees not covered by collective agreements.

Employees' Average Weekly Earnings



Employees' Earnings/Consumer Price Index



Unfortunately by the time the work stoppages were settled, it was necessary to place a substantial number of employees on indefinite layoff. This layoff resulted from declining market demand, and the fact that during the strike many of the Corporation's customers had been forced to make alternative commitments for steel supply that stretch into, or in some cases beyond, the first quarter of 1982.

Francization

Good progress continued to be made on the implementation of francization programs in the Province of Quebec to comply with the requirements of the Charter of the French Language. Two progress reports were submitted to 'L'Office de la langue française', the provincial agency responsible for administering the Act, covering such items as translation and terminology services, linguistic training programs and employee hiring, promotion and transfer procedures. The Corporation expects to receive its permanent certificate of francization sometime in the latter half of 1982.

Technology

Strong competition from other (especially offshore) steelmakers and producers of competitive materials dictates that Stelco's research, engineering, metallurgical and operating personnel continually seek out, assess and implement selectively new process technology and new products. These services also help to maintain Stelco's leading position in the industry by improving existing processes and products to keep them competitive and, by resolving day-to-day technical problems, ensuring that profits are not adversely affected by production shortfalls.

The following are some of the past year's technological highlights:

□ Newly designed oxygen injection lances were developed and installed on the furnaces at the Hilton Works basic oxygen steelmaking shop. These high-velocity lances, with a special nozzle/jet configuration, contribute to improved steel yield and maximize oxygen efficiency.

□ Revised steelmaking and rolling procedures have significantly reduced the yield loss attributable to surface problems on cold rolled sheet steel.

□ A modified component design and new operating practice to improve the batch annealing of coiled strip has resulted in

Employment Costs Dollars in thousands		1981	1980
Wages and Salaries	For time worked	**$516,624**	$537,040
	For vacations and statutory holidays	**50,051**	43,452
		$566,675	$580,492
Supplementary Employment Costs	Pensions	**$ 48,073**	$ 46,163
	Group insurance plans and other benefits	**37,049**	39,279
	Unemployment insurance and workmen's compensation	**22,818**	21,982
		$107,940	$107,424
	Total Employment Costs	**$674,615**	$687,916
	Average Number of Employees	**26,263**	25,094
Employee Benefits	Number of pensioners at year end	**5,406**	5,233
	Pensions paid during the year	**$ 26,813**	$ 23,561
	Life insurance in force at year end	**$865,884**	$669,945
	Death benefits paid during the year	**$ 3,574**	$ 3,354

a significant improvement in annealing furnace throughput and the production of more uniform quality steel.

□ Modifications to the vinyl coating system used on Barrier Series industrial cladding — a prefinished sheet steel product with outstanding corrosion resistance to harsh environments — led to the development of Ultragard, a premium quality coated product for the residential siding market.

□ The Corporation is participating in an investigation into a promising future technology for blast furnace operation which shows potential for shifting the primary energy base of the blast furnace from coal (coke) to electricity.

□ A prime consideration of Stelco engineers has been to assure design reliability. An example of Stelco's approach can be found in the vertical edging stand of the 80″ Hot Strip Mill at Lake Erie Works. In this application, vertical electric motors will drive the vertical rolls eliminating bevel gears and long shafts. The new design is inherently more reliable, and less costly, than the traditional design.

□ The Corporation continues to seek out cost-effective applications for microcomputer technology. At Stelco's Continuous Rod Processing Plant, microcomputers direct up to eleven radio-controlled cranes, as they load, unload and transport coils of rod through the various steps in the processing sequence.

□ Stelco's 80″ Hot Strip Mill at Lake Erie will include the first North American installation of a new energy recovery system in the slab reheating furnace. The slabs will be supported in the furnace by hollow "skids" which will generate steam as they are internally cooled. The steam will be piped to the plant steam supply, thus recovering energy which would otherwise have been wasted.

□ Stelco's Technical Services and Property Development Department has the responsibility for marketing technical developments that are patentable and have commercial application. One such development, the coilbox technology, is generating increasing interest around the world. In addition to Stelco's own unit, various steel companies in Germany, Sweden and Australia are now operating coilboxes on their hot strip mills. A further unit will be commissioned in Canada in early 1982 and three major U.S. steel companies, who evaluated the technology during 1981, are expected to place orders for the equipment in 1982. The sale of licenses for this technology has generated significant income for the Corporation and is expected to continue to generate income during the life of the basic patents.

Environmental control

Progress in our comprehensive environmental control program continued in 1981. At Hilton Works, a second collector main was installed on #6 Coke Oven Battery to reduce emissions. Another charging car was installed on Batteries #3, #4 and #5 to improve significantly the control of emissions while charging coal.

At Notre Dame Works, water quality improvements were brought about by the recycling of water at the nail galvanizing operation and neutralization of rinse water from the rod cleaning facility.

The recently installed Coke Oven Battery at Lake Erie Works employs the latest technology for the control of emissions. The battery top utilizes a high degree of automation as well as a vacuum cleaning system to reduce both emissions and the exposure of workers. In addition, a travelling hood and gas cleaning system controls emissions during the pushing of coke.

The program for the protection of the occupational environment was broadened to encompass the requirements of the Designated Substance Regulations which are being promulgated by the Province of Ontario. A task force is developing procedures to comply with the Transportation of Dangerous Goods Act which has been passed by the Government of Canada.

President and
Chief Operating Officer.

Toronto, Canada
February 15, 1982

Stelco Inc.

Consolidated Statement of Income and Retained Earnings

Years ended December 31
(Thousands of Dollars)

	1981	1980
Revenue		
Sales	$2,173,775	$2,228,620
Equity income from corporate joint ventures and partnerships	3,175	5,808
Income from short-term investments	54,706	11,433
	2,231,656	2,245,861
Expense		
Cost of sales, exclusive of the following items	1,842,077	1,828,567
Administrative and selling	120,284	110,983
Research and development	9,352	8,117
Depreciation	93,564	70,315
Interest on long-term debt	65,368	55,321
Other interest	358	896
Income taxes — current	4,679	9,423
— deferred	13,132	30,054
	2,148,814	2,113,676
Net Income for the Year	82,842	132,185
Retained Earnings at beginning of year	913,119	869,085
Discount on Preferred Shares Series D (purchased and cancelled — Note 10)	130	—
	996,091	1,001,270
Dividends (Note 10)	97,179	83,483
Expenses relating to issue of preferred shares (after deducting income taxes of $4,471 in 1980)	—	4,668
Retained Earnings at end of year	$ 898,912	$ 913,119
Net income per common share (Note 1)	$1.45	$4.05
Net income per common share — fully diluted (Note 1)	N/A	$3.88

Stelco Inc.

stelco

Consolidated Statement of Financial Position

At December 31
(Thousands of Dollars)

	1981	1980
Current Assets		
Cash	$ 8,029	$ 7,564
Short-term investments, at cost (approximates market value)	226,100	248,135
Accounts receivable	162,869	329,609
Inventories (Note 2)	794,367	701,905
Prepaid expenses	1,979	1,570
	1,193,344	1,288,783
Current Liabilities		
Accounts payable and accrued	323,236	279,472
Income and other taxes	34,470	38,360
Cash dividends payable	28,139	26,628
Long-term debt due within one year (Note 5)	16,059	13,657
	401,904	358,117
Working Capital	791,440	930,666
Other Assets		
Long-term intercorporate investments (Note 3)	74,715	78,397
Fixed assets, less accumulated depreciation (Note 4)	1,634,928	1,517,277
Unamortized long-term debt issue expense	6,615	7,105
	1,716,258	1,602,779
Total Investment	2,507,698	2,533,445
Other Liabilities		
Long-term debt (Note 5)	558,063	580,970
Deferred income taxes	402,912	389,780
	960,975	970,750
Shareholders' Equity	$1,546,723	$1,562,695
Derived from:		
Capital Stock (Note 10)		
Preferred shares	$ 504,237	$ 508,017
Common shares	142,925	140,854
Stock dividend to be issued	649	705
Retained Earnings	898,912	913,119
	$1,546,723	$1,562,695

On behalf of the Board: Gordon, Director; J D Allan, Director

Stelco Inc.

Consolidated Statement of Changes in Financial Position

Years ended December 31
(Thousands of Dollars)

	1981	1980
Source of Working Capital		
Current operations		
Net income	$ 82,842	$ 132,185
Depreciation	93,564	70,315
Deferred income taxes	13,132	30,054
Remitted (Unremitted) equity income	1,522	(2,063)
	191,060	230,491
Long-term intercorporate investments (net)	2,160	807
Net proceeds from issue of preferred shares	—	267,636
Net proceeds from issue of long-term debt	—	108,135
Other (net)	1,603	2,701
	194,823	609,770
Disposition of Working Capital		
Expenditures for fixed assets	212,338	192,497
Reduction of long-term debt	22,907	19,424
Purchase of preferred shares (Note 10)	3,604	1,534
Cash dividends (Note 10)	95,200	82,778
	334,049	296,233
Increase (Decrease) in Working Capital	(139,226)	313,537
Working Capital at beginning of year	930,666	617,129
Working Capital at end of year	$ 791,440	$ 930,666

Changes in Working Capital

	1981	1980
Current Assets		
Cash	$ 465	$ 3,098
Short-term investments	(22,035)	220,295
Accounts receivable	(166,740)	45,030
Inventories	92,462	87,767
Prepaid expenses	409	(2,228)
Increase (Decrease) in Current Assets	(95,439)	353,962
Current Liabilities		
Accounts payable and accrued	43,764	30,678
Income and other taxes	(3,890)	(4,770)
Cash dividends payable	1,511	5,871
Long-term debt due within one year	2,402	8,646
Increase in Current Liabilities	43,787	40,425
Working Capital Increase (Decrease)	$ (139,226)	$ 313,537

stelco

Notes to Consolidated Financial Statements

December 31, 1981

1. Summary of Significant Accounting Policies

Principles of Consolidation The consolidated financial statements include the accounts of Stelco Inc. and its subsidiaries, all of which are wholly owned. Also included are the Corporation's pro-rata portions of the assets, liabilities and expenses of its unincorporated joint ventures. (See Note 3, also see page 25 for listing of Subsidiary Companies and Unincorporated Joint Ventures.)

Corporate joint ventures and partnerships, in all of which the Corporation has an interest of 50% or less, are accounted for by the equity method. (See Note 3, also see page 25 for listing of Corporate Joint Ventures and Partnerships.)

Foreign Currencies Current assets and liabilities originating in foreign currencies are translated at year-end exchange rates. All other assets and liabilities originating in foreign currencies are translated at rates prevailing when the assets were acquired or the liabilities incurred. Income and expense items other than depreciation are translated at average rates prevailing during the year. The gains or losses resulting from these translations are reflected in the Consolidated Statement of Income.

Inventories Inventories are valued at the lowest of cost, replacement cost and net realizable value. Physical quantities are confirmed at least once a year by count except for certain raw materials confirmed by aerial survey.

Fixed Assets and Depreciation Fixed assets are recorded at historical cost and include construction in progress. Depreciation is provided using the straight-line method applied to the cost of the assets at rates based on their estimated useful life and beginning from the point when production commences. Construction in progress on which no depreciation has been recorded amounted to $401.1 million ($270.0 million at December 31, 1980). The following annual depreciation rates are in effect:

Buildings	2½ to 5%
Equipment	6 to 7½%
Automotive and mobile equipment	10 to 20%
Raw material plants and properties	4½ to 5%

Research and Development Expenditures for research and development are expensed as incurred.

Interest The interest cost of financing both working capital and capital expenditures is expensed as incurred.

Income Taxes Income taxes are provided on the tax allocation basis, and the resultant deferred income taxes are due principally to claiming depreciation for tax purposes in excess of straight-line depreciation. Investment tax credits are recorded by the "flow-through" method which recognizes such credits in the year in which they are claimed for tax purposes by a reduction of income taxes expense.

Net Income Per Common Share Net income per common share has been computed on the basis of net income for the year, less dividends on the preferred shares, divided by the weighted average of total Series A and Series B Convertible Common Shares outstanding during the year. Fully diluted net income per common share has been computed by
(i) adding back dividends on the convertible preferred shares to earnings available for common shares and
(ii) dividing by the weighted average of total Series A and Series B Convertible Common Shares outstanding during the year (assuming that all convertible preferred shares outstanding at the end of the year were converted into Series A Convertible Common Shares at the earliest date at which the preferred shares were outstanding during the year).

2. Inventories

	1981 (in thousands)	1980 (in thousands)
Raw materials and supplies	**$ 473,786**	$ 349,033
Finished and semi-finished products	**320,581**	352,872
	$ 794,367	$ 701,905

3. Long-term Intercorporate Investments and Related Commitments

	1981 (in thousands)	1980 (in thousands)
(a) Investments		
Corporate joint ventures and partnerships, at equity	**$ 64,451**	$ 68,214
Portfolio investments, at cost	**10,264**	10,183
(quoted market value 1981 — $21.8 million, 1980 — $20.6 million)		
	$ 74,715	$ 78,397

3. (continued)

(b) Joint Ventures and Partnerships

Substantially, the joint ventures and partnerships are an integral part of steel operations and exist to provide raw materials, certain finishing operations and some administrative services. Accordingly, to avoid duplication in the disclosure of sales, such transactions between the Corporation and the joint ventures and partnerships are accounted for in the Consolidated Statement of Income by:

(i) Including the cost of materials, operations and services provided by the joint ventures and partnerships in "Cost of sales" or "Administrative" expense as appropriate.

(ii) Disclosing the Corporation's share of the annual income from corporate joint ventures and partnerships as a separate item of "Revenue".

The following is a summary of the Corporation's proportionate share of the financial position of the joint ventures and partnerships:

	1981 (in thousands)			1980 (in thousands)
	Unincorporated Joint Ventures	Corporate Joint Ventures and Partnerships	Total	Total
Assets	$ 74,707	$ 232,333	$ 307,040	$ 292,820
Liabilities	8,150	167,882	176,032	156,162
Equity	$ 66,557	$ 64,451	$ 131,008	$ 136,658

Included in the liabilities of the corporate joint ventures and partnerships is $109.9 million of long-term debt against which certain assets relating to those entities have been pledged.

(c) Commitments

The Corporation, as a participant in certain of the corporate joint ventures and partnerships, is entitled to receive its proportionate share of coal and iron ore produced and is committed to pay its share of their costs, including minimum charges for principal and interest to cover the servicing of their long-term debt. The Corporation's share of such minimum charges averages US $10 million annually to 1996.

4. Fixed Assets

	1981 (in thousands)	1980 (in thousands)
Raw material plants and properties, at cost	$ 270,926	$ 267,038
Manufacturing plants and properties, at cost	2,429,109	2,222,190
	2,700,035	2,489,228
Less accumulated depreciation	1,065,107	971,951
	$1,634,928	$1,517,277

5. Long-term Debt

	1981 (in thousands)	1980 (in thousands)
5⅞% sinking fund debentures due May 1, 1990	$ 33,815	$ 34,868
9¼% sinking fund debentures due November 1, 1990	50,809	51,848
10⅞% sinking fund debentures due September 15, 1994	59,486	60,416
9¾% sinking fund debentures due April 1, 1995	92,103	96,029
10¼% sinking fund debentures due April 30, 1996	96,282	100,000
10% notes due October 15, 1987 (1981 — US $12 million, 1980 — US $13 million)	12,392	13,749
10¾% sinking fund notes due November 20, 1995 (1981 — US $117 million, 1980 — US $125 million)	119,235	127,717
13½% sinking fund debentures due October 1, 2000	110,000	110,000
	574,122	594,627
Less amount due within one year, net of prepayments	16,059	13,657
	$ 558,063	$ 580,970

After allowing for prepayments, annual sinking fund and other repayments over the next five years amount to $16.1 million in 1982, $22.5 million in 1983, $24.6 million in 1984, $31.2 million in 1985 and $31.2 million in 1986.

Translation of the long-term debt payable in United States funds at December 31 rates of exchange would increase the long-term debt by $21.0 million for 1981 and $23.8 million for 1980. This is not necessarily indicative of the amount which will be repaid when the obligations are retired.

6. Capital Programs

The estimated cost to complete approved capital programs is $287 million, which will be spent over a period of three years. This includes an estimated amount of $71 million to cover inflation in construction costs and other contingencies.

7. Retirement Plans

Pension costs charged against income in the year under the Corporation's pension plans include payments made to trust funds for current and past service requirements as determined by an independent actuary. Unfunded past service costs in respect of pensions ultimately payable to the present employees are estimated to be $267 million at December 31, 1981. This amount is being funded over periods not exceeding fifteen years.

8. Lease Commitments

Capital Leases At December 31, 1981, the Corporation had no significant capital lease commitments.

Operating Leases Future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year at December 31, 1981 are:

	(in thousands)
1982	**$ 5,142**
1983	**6,028**
1984	**5,726**
1985	**5,168**
1986	**4,998**
Subsequent to 1986	**46,718**
Total	**$73,780**

9. Segmented Information

The Corporation operates exclusively as a vertically integrated producer of a wide range of steel products which is its only line of business and dominant segment. Export sales of domestic production to foreign countries amounted to $344 million in 1981 ($469 million in 1980).

10. Capital Stock and Dividends

(a) Under the Canada Business Corporations Act the Corporation is authorized to issue in series unlimited numbers of Preferred Shares and Common Shares without nominal or par value.

(b) Preferred Shares

	1981 Number of Shares	1981 Stated Capital (in thousands)	1980 Number of Shares	1980 Stated Capital (in thousands)
Outstanding — Series A	**8,000,000**	**$200,000**	8,000,000	$200,000
— Series B	**1,922,300**	**48,058**	1,983,650	49,591
— Convertible Series C	**5,935,170**	**148,379**	5,937,020	148,426
— Series D	**4,312,000**	**107,800**	4,400,000	110,000
	20,169,470	**$504,237**	20,320,670	$508,017

Series A

These shares are entitled to a cumulative floating rate dividend, calculated and payable on a quarterly basis. The rate equals the sum of 1¼% and one-half the median Canadian bank prime rate charged by certain Canadian chartered banks.

The shares are redeemable on or after May 1, 1980 at $25.75 per share, reducing by $0.1875 annually on May 1, to $25.00 per share.

The shares are retractable at $25.00 per share at the holder's option, on May 1 in each of the years 1987, 1992 and 1997.

Series B

These shares are entitled to a fixed cumulative dividend at the rate of $1.94 per share annually, payable in equal quarterly instalments.

The shares are redeemable on or after November 1, 1984 at $26.25 per share, reducing by $0.25 annually on November 1, to $25.00 per share.

On November 1 each year, the Corporation is required to purchase at $25.00 per share 61,350 Series B Preferred Shares, if tendered.

On November 1, 1981, 61,350 shares with a stated capital of $1,533,750 were tendered and purchased for a total consideration of $1,533,750 and were cancelled.

10. (continued)

Convertible Series C

These shares are convertible into Series A Convertible Common Shares of the Corporation at any time on or before April 30, 1990, at a conversion price of $33.75 per share, subject to adjustment in certain events. The 5,935,170 shares with a stated capital of $148,379,250 outstanding at December 31, 1981, were convertible at the option of the holders into 4,396,422 Series A Convertible Common Shares.

The shares are entitled to a fixed cumulative dividend at the rate of $1.94 per share annually, payable in equal quarterly instalments.

The shares are redeemable at $26.25 per share on and after May 1, 1983 and prior to May 1, 1985, only if the weighted average price at which the Series A Convertible Common Shares traded in a specified period was not less than 125% of the conversion price then in effect. The shares are redeemable on or after May 1, 1985 at $26.25 per share, reducing by $0.25 annually on May 1, to $25.00 per share.

Commencing July 1, 1990, the Corporation is required to make all reasonable efforts to purchase during each calendar quarter, at a price not exceeding $25.00 per share plus unpaid dividends and costs of purchase, 1% of the number of these shares outstanding on April 30, 1990. The resulting annual obligation expires December 31 in each year.

During the year 1,850 shares with a stated capital of $46,250 were converted into 1,369 Series A Convertible Common Shares.

Series D

These shares are entitled to a fixed cumulative dividend at the rate of $2.50 per share annually, payable in equal quarterly instalments.

The shares are redeemable on and after November 1, 1985 at $26.00 per share, reducing by $0.20 annually on November 1, to $25.00 per share.

The shares are retractable at the option of the holder on November 1, 1985 and 1990 at a price of $25.00 per share.

The Corporation may elect in 1985 and 1990 to create further series of Preferred Shares ("1985 Series" and "1990 Series") into which the Preferred Shares Series D would be convertible on a share-for-share basis on and after the retraction date and having the same attributes in all material respects as the Preferred Shares Series D except that the dividend rate may be increased effective November 1, 1985 and increased or decreased effective November 1, 1990 and, in either case, the redemption price may be increased and a further non-call period may be provided.

During each calendar quarter the Corporation is required to make all reasonable efforts to purchase, at a price not exceeding $25.00 per share plus costs of purchase:

(i) from January 1, 1981 to December 31, 1985, 22,000 Preferred Shares Series D;

(ii) from January 1, 1986 to December 31, 1990, 0.75% of the number of Preferred Shares Series D outstanding at the close of business on November 1, 1985; and

(iii) commencing January 1, 1991, 1.25% of the number of Preferred Shares Series D outstanding at close of business on November 1, 1990.

This purchase obligation is cumulative only within each calendar year, and would attach equally to shares of the 1985 Series and the 1990 Series as the case may be.

During the year 88,000 shares with a stated capital of $2,200,000 were purchased for a total consideration of $2,070,246 and were cancelled. The resulting difference of $129,754 was included in retained earnings.

(c) Common Shares

	1981 Number of Shares	**1981 Stated Capital (in thousands)**	1980 Number of Shares	1980 Stated Capital (in thousands)
Outstanding — Series A Convertible	**23,774,031**	**$137,122**	23,677,141	$134,897
— Series B Convertible	**1,006,164**	**5,803**	1,045,570	5,957
	24,780,195	**$142,925**	24,722,711	$140,854

Series A and Series B

The Convertible Common Shares of each series are voting, convertible into one another on a share-for-share basis and rank equally in all respects except that dividends on the Series B Convertible Common Shares may be payable by way of a stock dividend in Series B Convertible Common Shares in accordance with the conditions attaching to such shares and dividends on the Series A Convertible Common Shares are payable in cash. During the year, 56,388 Series B Shares were issued in payment of stock dividends. Under terms of the issue, certain fractional Series B Shares with a stated capital of $9,670 and equivalent to 273 whole shares were purchased and cancelled.

10. (continued)

(d) Dividends

Dividends declared, including extra distributions on common shares, consisted of the following:

	1981 (in thousands)	1980 (in thousands)
Preferred Shares		
Series A	**$21,442**	$16,821
(per share 1981 — $2.68029, 1980 — $2.10268)		
Series B	**3,819**	3,938
(per share 1981 — $1.94, 1980 — $1.94)		
Convertible Series C	**11,514**	9,614
(per share 1981 — $1.94, 1980 — $1.617)		
Series D	**10,877**	3,677
(per share 1981 — $2.50, 1980 — $0.8356)		
	47,652	34,050
Common Shares		
(per share 1981 — $2.00, 1980 — $2.00)		
Series A	**47,548**	47,382
Series B (includes stock dividend 1981 — $1,979, 1980 — $705)	**1,979**	2,051
	49,527	49,433
	$97,179	$83,483

11. Related Party Transactions

Related party transactions occuring during the years 1981 and 1980 and balances outstanding at December 31 both resulting from transactions with various entities recorded as long-term intercorporate investments (see Note 3(a)) are as follows:

	1981 (in thousands)	1980 (in thousands)
(a) During the year		
Materials and services purchased	**$145,732**	$161,366
Capital repayments	**703**	180
Dividends and interest received	**4,813**	5,073
Repayment of demand notes	**1,375**	—
(b) At December 31		
Capital advances	**$ 41,892**	$ 42,595
Accounts receivable (payable)	**13,105**	(749)
Demand notes receivable	**6,500**	7,875

The corporate joint ventures and partnerships, which are accounted for on an equity basis, exist to provide certain raw materials, finishing operations and administrative services. (See also Note 3.)

Auditors' Report

THORNE RIDDELL
Chartered Accountants

To The Shareholders
Stelco Inc.

We have examined the consolidated statement of financial position of Stelco Inc. at December 31, 1981 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell

Toronto, Canada
January 25, 1982

Ten Year Statistical Summary

Dollars in millions except as indicated*

stelco

		1981[1]	1980	1979	1978	1977	1976	1975	1974	1973	1972
Operations (thousands of net tons)											
Raw steel produced		**4,454**	6,278	5,862	5,533	5,640	5,724	5,396	5,542	5,723	5,031
Total raw steel processed (including purchases)		**4,996**	6,109	6,306	6,199	5,490	5,669	5,263	5,837	6,035	5,362
Steel shipments		**3,804**	4,529	4,553	4,466	3,995	4,028	3,706	4,078	4,204	3,797
Income and Related Data											
Sales	$	**2,173.8**	2,228.6	2,091.2	1,775.7	1,444.1	1,359.8	1,201.8	1,133.2	937.7	775.9
Administrative and selling	$	**120.3**	111.0	98.7	88.5	81.8	75.2	66.2	57.5	46.9	40.9
Depreciation	$	**93.6**	70.3	60.5	56.7	55.1	54.9	51.4	52.1	46.7	39.7
Interest on long-term debt	$	**65.4**	55.3	52.5	52.5	51.4	46.8	24.2	10.2	8.2	8.4
Income taxes	$	**17.8**	39.5	62.0	39.3	1.6	17.0	36.4	57.8	56.6	22.9
Net income	$	**82.8**	132.2	156.9	111.9	81.9	77.3	82.6	110.9	87.7	67.1
Per common share[2] —	*$	**1.45**	4.05	5.74	4.07	3.02	3.13	3.35	4.50	3.56	2.73
— fully diluted	*$	**N/A**	3.88	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Return on sales	%	**3.8**	5.9	7.5	6.3	5.7	5.7	6.9	9.8	9.4	8.6
Return on average investment[3]	%	**4.6**	6.9	9.1	7.3	6.3	6.7	7.4	10.8	9.7	8.2
Return on average common shareholders' equity[2]	%	**3.4**	9.7	14.7	11.3	8.8	9.5	10.7	15.5	13.5	11.2
Dividends declared — preferred	$	**47.7**	34.0	15.4	11.5	8.2	–	–	–	–	–
— common	$	**49.5**	49.4	49.4	43.2	42.0	42.0	42.0	38.2	32.0	30.8
Per common share	*$	**2.00**	2.00	2.00	1.75	1.70	1.70	1.70	1.55	1.30	1.25
Earnings reinvested in (withdrawn from) the business	$	**(14.4)**	48.8	92.0	57.2	31.7	35.3	40.6	72.7	55.7	36.3
Capital Expenditures	$	**210.2**	191.7	204.0	145.3	144.6	172.5	232.8	135.5	116.5	95.0
Financial Position, year end											
Working capital	$	**791.4**	930.7	617.1	593.6	603.3	457.5	380.1	301.1	218.5	199.5
Fixed assets — net	$	**1,634.9**	1,517.3	1,397.4	1,265.7	1,186.1	1,102.0	990.5	812.1	734.1	671.8
Long-term debt	$	**558.1**	581.0	490.4	496.9	501.3	504.4	361.1	165.5	103.8	105.0
Preferred shareholders' equity	$	**504.2**	508.0	233.1	200.0	200.0	–	–	–	–	–
Common shareholders' equity	$	**1,042.5**	1,054.7	1,009.6	917.7	860.3	829.3	793.9	752.1	679.0	622.9
Per common share	*$	**42.07**	42.66	40.85	37.13	34.83	33.57	32.14	30.50	27.56	25.30
Employment											
Average number of employees		**26,263**	25,094	25,032	23,712	22,942	22,691	23,192	23,251	22,580	21,582
Total employment costs	$	**674.6**	687.9	641.6	559.0	495.0	459.0	401.9	350.6	308.2	264.5
Employees' average weekly earnings[4]	*$	**492.25**	443.94	408.75	374.98	343.67	320.90	280.85	249.15	224.63	204.46
Number of Common Shareholders, year end		**32,277**	36,040	40,495	38,147	36,408	36,501	37,864	39,086	39,331	40,036

(1) 1981 operations were interrupted by a 125 day strike at Hilton Works. Certain finishing plants and Lake Erie Works were also affected by strikes for various periods of time.
(2) After preferred dividends in 1981 to 1977 inclusive. (See Note 1 on page 17 for explanation of computation of net income per common share.)
(3) After adding back interest on long-term debt (net of tax) to Net Income.
(4) Excludes the cost of supplementary employment benefits.

Directors and Officers

At December 31, 1981

Directors

*J.D. Allan, Toronto
President and Chief Operating Officer of the Corporation

‡Alex E. Barron, Toronto
President, Canadian General Investments Limited

A. Jean de Grandpré, O.C., Q.C., Montreal
Chairman of the Board and Chief Executive Officer, Bell Canada

‡Thomas M. Galt, Toronto
Chairman and Chief Executive Officer, Sun Life Assurance Company of Canada

*J. Douglas Gibson, O.B.E., Toronto
Corporate Director

*J. Peter Gordon, Toronto
Chairman of the Board and Chief Executive Officer of the Corporation

*A.J. MacIntosh, Q.C., Toronto
Partner, Messrs. Blake, Cassels & Graydon, Barristers & Solicitors

†Senator The Hon. Ernest C. Manning, P.C., C.C., Edmonton
Chairman, Manning Consultants Limited

Frederick C. Mannix, Calgary
Corporate Director

‡†William F. McLean, Toronto
Chairman of the Board, Canada Packers Inc.

*†D.R. McMaster, Q.C., Montreal
Counsel, Messrs. McMaster Meighen, Barristers & Solicitors

Lucien G. Rolland, Montreal
President and Chief Executive Officer, Rolland inc.

Henry G. Thode, C.C., Ph.D., F.R.S. Hamilton
Professor Emeritus, McMaster University

†Kenneth A. White, C.D., Toronto
Chairman and Chief Executive Officer, Royal Trustco Limited

*William H. Young, Hamilton
President, The Hamilton Group Limited

*Member — Executive Committee
†Member — Audit Committee
‡Member — Compensation and Manpower Resources Committee

Executive Officers

J.P. Gordon
Chairman of the Board and Chief Executive Officer

J.D. Allan
President and Chief Operating Officer

A.J. Harris
Vice-President, Engineering, Research and Purchasing

R.E. Heneault
Vice-President, Administration

G.H.G. Layt
Vice-President, Operations

A.R. McMurrich
Vice-President, Marketing and Corporate Planning

H.J.M. Watson
Vice-President, Finance

J.W. Younger, Q.C.
Vice-President, Secretary and General Counsel

Vice-Presidents and Other Officers

W.C. Ashcroft
Assistant Treasurer

G. Binnie
Comptroller

G.W.R. Bowlby
Vice-President — Sales

K. Coles
Vice-President — Manufacturing

W.A. Darby
Assistant Comptroller — Corporate Accounting

J.E. Hood
Vice-President — Manufacturing

L.M. Killaly
Assistant Secretary

P.D. Matthews
Treasurer

A.G. Northcott
Assistant Comptroller — Works Accounting

stelco

Head Office
Royal Trust Tower, Toronto-Dominion Centre,
Toronto, Ontario, M5K 1J4.

General Offices
Hamilton, Ontario
Montreal, Quebec — Eastern Region
Edmonton, Alberta — Western Region

Sales Offices
Hamilton, Ontario
Montreal, Quebec
Calgary, Alberta
Edmonton, Alberta
Quebec, Quebec
Regina, Saskatchewan
Saint John, New Brunswick
St. John's, Newfoundland
Vancouver, British Columbia
Windsor, Ontario
Winnipeg, Manitoba

Plants
Hamilton, Ontario
- Hilton Works
- Canada Works
- Canadian Drawn Works
- Frost Works
- Parkdale Works

Beachville, Ontario
- Chemical Lime Works

Brantford, Ontario
- Brantford Works

Burlington, Ontario
- Burlington Works

Gananoque, Ontario
- Gananoque Works

Nanticoke, Ontario
- Lake Erie Works

Red Lake, Ontario
- The Griffith Mine

Toronto, Ontario
- Swansea Works

Welland, Ontario
- Page-Hersey Works
- Welland Tube Works

Contrecoeur, Quebec
- McMaster Works

Lachine, Quebec
- Dominion Works

Montreal, Quebec
- Notre Dame Works
- St. Henry Works

Camrose, Alberta
- Camrose Works

Edmonton, Alberta
- Stelco Edmonton, Steel Works
- Stelco Edmonton, Finishing Works

Regina, Saskatchewan
- Stelco Fabricators Ltd.

Research Centre
Burlington, Ontario

Subsidiary Companies, wholly owned
Stelco Fabricators Ltd., Regina, Sask.
Frost Steel and Wire Company, Limited, Hamilton, Ont.
Clôture Frost Inc. — Frost Fence Inc., Montreal, Que.
Durastal Installations Limited, Montreal, Que.
The Steel Company of Canada, Limited, Toronto, Ont.
Stelco Technical Services Limited, Hamilton, Ont.
Stelco Coal Holding Company, Cleveland, Ohio
Stelco Coal Company, Pittsburgh, Pa.
Pikeville Coal Co., Louisville, Ky. (Chisholm Mine)
Kanawha Coal Company, Ashford, W. Va. (Madison Mine)
Ontario Eveleth Company, Minneapolis, Minn.
Ontario Hibbing Company, Minneapolis, Minn.
Stelco Erie Corporation, Minneapolis, Minn.
Stelco Nederland B.V., Amsterdam, The Netherlands
Stelco S.A., Geneva, Switzerland
The Steel Company of Canada (U.K.), Limited, London, England
Can Hamilton Trading Limited, London, England
Ubbelohde-Stelco S.A.C.I. y de R., Buenos Aires, Argentina
Stelco do Brasil Ltda., São Paulo, Brazil
Stelco de Venezuela, S.R.L., Caracas, Venezuela

Unincorporated Joint Ventures

	% Owned
Wabush Mines, Nfld. & Que.	25.6
Hibbing Taconite Company, Minn.	6.7
Elk River Coal Project, B.C.	25.0

Corporate Joint Ventures and Partnerships

	% Owned
Iron Ore	
Tilden Iron Ore Partnership, Mich.	15.6
Erie Mining Company, Minn.	10.0
Eveleth Expansion Company, Minn.	23.5
Ontario Iron Company, Minn.	10.0
Coal	
Mathies Coal Company, Pa.	13.3
Beckley Coal Mining Company, W. Va.	12.5
Olga Coal Company, W. Va.	10.0
Other	
Baycoat Limited, Ont.	50.0
Canada Systems Group Limited, Ont.	33.3
Torcad Limited, Ont.	50.0
Fers et Métaux Recyclés Ltée, Que.	50.0
Arnaud Railway Company, Que.	25.6
Wabush Lake Railway Company, Limited, Nfld.	25.6
Knoll Lake Minerals Limited, Nfld.	14.9
Northern Land Company Limited, Nfld.	12.8
Twin Falls Power Corporation, Limited, Nfld.	4.4

Registrar and Transfer Agent
MONTREAL TRUST COMPANY
Toronto, Montreal, Halifax, Hamilton, Winnipeg, Regina, Edmonton, Vancouver

Annual Meeting
The Annual Meeting of the Shareholders of the Corporation will be held at Commerce Hall (concourse level), Commerce Court West, in Toronto at 10:30 a.m., local time, on Monday, April 19, 1982.

PRINTED IN CANADA

stelco

Stelco Inc.

Toronto, Canada